

October 27, 2023

ADD (no change)

Stock code:	SRX AU
Price:	A\$0.18
12-month target price:	A\$0.51
Previous target price:	A\$0.51
Up/downside to target price:	183.3%
Dividend yield:	0.0%
12-month TSR*:	183.3%
Market cap:	A\$76.36m
Average daily turnover:	A\$0.10m
Index inclusion:	N/A

* Total stock return – Up/downside to target price + 12-month forward dividend yield.

Price performance

(%)	1M	3M	12M	3Y
Absolute	-2.7	-21.7	-12.2	
Rel ASX/S&P200	0.5	-13.7	-12.2	



Source: IRESS

Financial summary

	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue (US\$m)	254.5	195.9	236.9	259.4
EBITDA Norm (US\$m)	77.50	45.93	46.90	48.40
Net Profit (US\$m)	73.77	32.38	23.05	21.09
EPS Norm (US\$)	0.17	0.08	0.05	0.05
EPS Growth Norm (%)		-56.1%	-28.8%	-8.5%
P/E Norm (x)	0.65	1.48	2.08	2.28
DPS (US\$)	0.000	0.000	0.000	0.000
Dividend Yield (%)	0%	0%	0%	0%
Franking	NA	NA	NA	NA
EV/EBITDA (x)	0.13	-0.12	3.86	5.77
Gearing (Net Debt/EBITDA)	-0.49	-1.16	2.83	4.77

Source: Company data, Morgans estimates

Related research
[SRX \(ADD - TP A\\$0.51\) - 24 Aug 2023](#)
[SRX \(ADD - TP A\\$0.51\) - 28 Jul 2023](#)
Sharad BHAT

(61) 8 6160 8707

sharad.bhat@morgans.com.au

Analyst(s) own shares in the following stocks mentioned in this report:

– Sierra Rutile Holdings

Sierra Rutile Holdings

Macro-concern weighs down on rutile prices

- Q3 production output and guidance revision surprised the market and trailed our estimates.
- Rutile prices (pigment market) continue to face headwinds but we think the market will find the bottom in the near term.
- In the long run we continue to see value upside in SRX and retain our ADD rating on an unchanged price target of \$0.51ps.

Q3CY23 result

- Q3 rutile production of 27kt (MorgF 33kt) at \$1,147/t (MorgF \$989/t) and sales of 11kt (down 60%) were impacted by continued weakening of rutile prices and global pigment markets. The realised rutile price slumped by ~15% to \$1,268/t FOB.
- Operating margins were compressed by a soft spot rutile price environment. With reduced sales volumes this resulted in negative operating cashflow for the quarter.
- Full-year 2023 rutile production guidance was reduced to 115kt-120kt (from 124kt-126kt) with a corresponding increase in full-year net unit cost guidance to \$1,075-1,125/t (from \$990-1,055/t) on lower production volumes.
- Mogbwemo Tailings Project to reduce operating costs and extend mine life at Area 1 is on hold pending satisfactory resolution of Third Amendment Agreement.
- Sembahun DFS is expected in January 2024. Indications to date suggest that capital costs should be broadly in line with the 2022 PFS estimate.
- A new credit facility of \$25m is in place to provide greater financial flexibility to execute on Mogbwemo tailing project, post successful negotiation with GoSL.
- The cash balance at quarter end was \$20m and finished goods had an unaudited value of \$36m; these inventories are expected to be converted to cash as market conditions improve.

Analysis

- Taking a tactical view, the 3Q production numbers and guidance downgrade surprised the market and trailed our estimates. Subdued economic activity globally, particularly ongoing weakness in the real estate and construction industries, continues to impact rutile consumption.
- In response to macro-economic headwinds, global rutile producers (ILU, SRX) are lowering production and holding inventories to match the demand profile in a bid to achieve better prices in the future. In the longer term, a global supply deficit of natural rutile continues to emerge.
- Positively, SRX continues to generate cashflows with net working capital of \$81m, including \$20m in net cash and finished inventories of \$36m with plans to sell these inventories once the rutile price improves. Pleasingly, the company anticipates Sembahun DFS estimates to be in line with previous studies (~\$330m) with no capex escalation.

Forecast and valuation update

- We have incorporated today's production/cost numbers into our model and aligned the Q4 numbers for CY24. Our 12-month target price, using sum of the parts cashflow, is maintained at \$0.51ps. We retain our Add rating.

Investment view

- SRX commands a sizeable share of the global natural rutile market. The company generates decent cashflows and has a sound financial position. SRX is cash-backed and trades at a sharp discount to our valuation. The undervalued micro-cap is suited to risk tolerant investors comfortable with African exposure.

Price catalysts

- Resolution and agreement on Area 1 Fiscal scheme with GoSL.
- Mogbwemo Tailings Project execution to improve cost base and extend Area 1 life of asset.
- Sembahun DFS (Jan-24) and clear pathway to execution/funding of Sembahun.

Risks

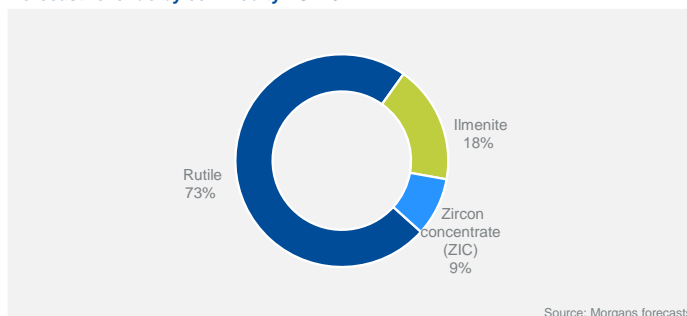
- Sovereign and political risk, economic downturn (recessionary fears) affecting rutile/pigment prices, funding risk (securing capital) to develop Sembahun project.

Sierra Rutile Holdings

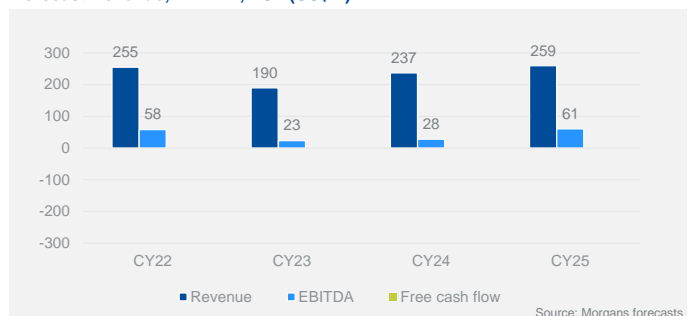
ADD		as at October 27, 2023	
Price (A\$):	0.18	12-month target price (A\$):	0.51
Market cap (A\$m):	76.36	Up/downside to target price (%):	183.3
Free float (%):	100.0	Dividend yield (%):	0.0
Index inclusion:	N/A	12-month TSR (%):	183.3

Sierra Rutile (SRX), one of the significant natural rutile producers based in Sierra Leone. SRX owns and operates multi-mine mineral sands operation at Area 1 and a development project, Sembahun, 30km from Area 1 operation

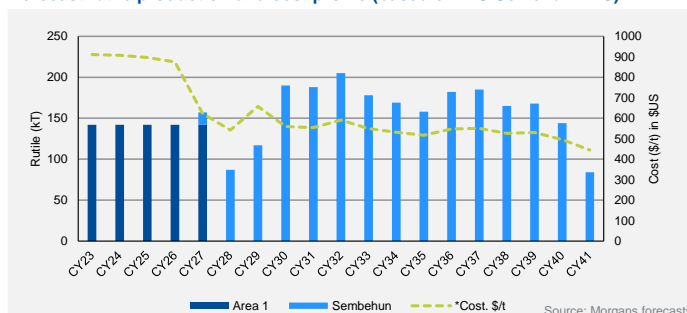
Forecast revenue by commodity - CY23



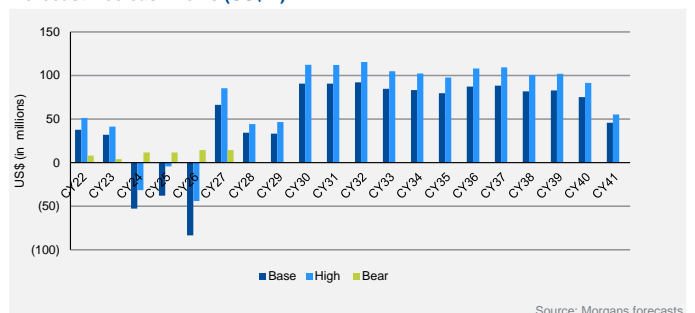
Forecast Revenue, EBITDA, FCF (US\$m)



Forecast rutile production and cost profile (based on ILU Sembhun PFS)



Forecast free cash flows (US\$m)



Bull points

Strategic asset: SRX has world-scale, long life minerals asset. It is a long established producer of high-quality natural rutile for Ti markets. Substantial Sembahun resources support clear extension and expansion upside.

Constrained supply: Supplies 20% to 25% of global natural rutile to Ti pigment and metals market. It has long-standing customer relationships with strong demand for premium natural rutile in declining supply.

Robust financial position and attractive valuation: Cash of US\$37.7m at 25 January and no debt. Trading at a sharp discount, offers capital upside.

Funding growth: Opportunity to generate attractive returns for relatively low risk via development of Sembahun. Low expansion (brownfield) risk.



Bear points

Country risk: While currently stable, Sierra Leone remains a country with social, political, and economic challenges. ASX-listed mining companies tend to see a market discount applied to their African assets.

Funding: Sembahun DFS is in progress, capital structure and funding arrangement to support development of Sembahun is unclear (evolving).

Execution: Mine construction, and associated processing and infrastructure risks, along with engineering and technical uncertainties associated with product qualities, and mineral recoveries.

Pigment market risk: Demand softening influenced by macroeconomic conditions.



Figure 1: Financial summary

Year to 31 Dec (US\$m)					
Income statement	2021A	2022A	2023F	2024F	2025F
Revenue	184	254	196	237	259
Other Income	2	0	-	-	-
Total Operating Costs	-166	-189	-140	-180	-201
Other Costs	0	-8	-10	-10	-10
EBITDA	21	77	46	47	48
D&A	-32	-3	-9	-23	-13
Net interest	-1	0	0	0	-13
Impairment reversal	0	23	0	0	0
Financing	0	-2	0	0	0
Tax expense	-3	-1	-1	-1	-1
Underlying NPAT	6	76	32	23	21
Abnormals - post-tax	0	0	0	0	0
Reported NPAT	6	76	32	23	21
Cash flow statement					
2021A	2022A	2023F	2024F	2025F	
Cash receipts	21	248	195	237	259
Payments to suppliers	0	-204	-180	-191	-212
Net interest	-1	1	0	0	-13
Income tax paid	-3	-1	0	-1	-1
Net Change in WC		0	-2	-5	-5
Operating cash flow	17	43	12	55	27
Purchase of PP&E	-16	-17	-23	-109	-95
Sale of PP&E	0	0	-23	-234	-120
Other Investing Cash Flow (0	-48	3	0	0
Investing cash flow	-16	-65	-29	-239	-125
Issue of share proceeds	0	45	0	0	0
Debt raised	0	0	0	200	100
Debt paid	0	0	0	0	0
Dividend paid	0	0	0	0	0
Financing Cash flow	0	0	0	200	100
Cash at beginning		26	38	53	67
Inc/(decr) cash at end	9	38	53	67	69
Balance sheet					
2021A	2022A	2023F	2023F	2023F	
Cash & deposits	9	38	53	44	64
Receivables	43	54	124	132	140
Inventories	41	35	112	118	126
Fixed assets	27	24	0	0	0
Total Assets	166	223	289	317	334
Payables	23	29	71	29	29
Interest bearing debt	0	0	0	0	0
Total Liabilities	85	88	156	466	733
Share capital	545	135	1093	303	503
Other reserves	0	0	0	0	0
Retained earnings	0	0	53	67	69
Minority interest	22	204	0	248	231
Total Equity	81	135	122	303	503

	Unrisked	Unrisked	Risked	Risked
Valuation summary	A\$m	A\$ps	A\$m	A\$ps
Area 1	160	0.38	160	0.38
Sembehun (50% risked)	60	0.14	30	0.07
Total operations	220	0.52	190	0.45
Net Cash (/Debt)	27.40	0.06	27.40	0.06
Total valuation	247	0.60	217	0.51
WACC				14%
Price target (A\$)				0.51
AUD (DCF)				0.73
Production & Costs				
	2022A	2023F	2024F	2025F
Rutile - kt	136	118	124	124
Ilmenite - kt	59	47	55	55
Zircon in concentrate (ZIC) - kt	34	48	35	35
Total Product sales - kt	229	213	214	214
Rut. Cost : US\$/t net co-products	942	1041	976	1153
Assumed Benchmark pricing				
	2022F	2023F	2024F	2025F
Rutile - US\$/t FOB	1511	1415	1475	1580
Ilmenite - US\$/t FOB	290	305	315	315
Zircon in concentrate (ZIC) - US\$/t I	600	600	600	600
AUD	0.77	0.72	0.72	0.72
Per share data				
	2022A	2023F	2024F	2025F
No. shares		424.2	424.2	424.2
DPS (cps)		0	0	0
Dividend yield (%)		0	0	0
EPS (cps)		0.08	0.05	0.05
Operating performance				
	2022A	2023F	2024F	2025F
EBITDA margin (%)		18.2%	19.3%	18.2%
EBIT margin (%)		13.7%	9.6%	13.3%
EV/ EBITDA		-0.12	3.86	5.77
Revenue to cost		1.31	1.25	1.23
Gearing (Net Debt/EBITDA)		-1.16	2.83	4.77

Source: Morgans estimates

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